

State of Delaware
Office of Auditor of Accounts

Working Hard to Protect YOUR Tax Dollars

**Statewide School Districts' Construction
Projects Examination Engagements
Caesar Rodney School District**

Fiscal Year Ended June 30, 2019

Kathleen K. McGuiness, RPh, CFE
State Auditor



Background

School District Construction Projects

In accordance with 29 Del. C. §7509, the Department of Education (DOE) shall determine the present necessity for any school construction program. Once a School District (the District) identifies the need for a construction project and receives approval from its local Board of Education (the Board), they submit a Major Capital Improvement Program request form to the DOE by August 31 each year. The DOE then meets with the District to review appropriate documentation and discuss the necessity of the project. If it is deemed necessary, the DOE will include the project in its budget request for the following fiscal year. All projects that are included in the budget request are then issued a Certificate of Necessity (CN) by late October of each fiscal year, which authorizes the construction project and details the scope and cost limits for the project.¹

The DOE calculates the amount of State of Delaware (the State) funding the District will receive using a standard school construction formula. The formula is uniform throughout the State and is based on pupil capacity for the type of school requested (i.e., elementary, middle, or high school). The remainder of the cost is paid with local tax receipts, thus referred to as the local share.

Before a District can issue bonds to fund the local share of the construction costs, taxpayers must approve the bond sale through a referendum.² A referendum may occur any time after a CN is issued, and the District has one year and two opportunities to pass a successful referendum before needing to request a new CN from the DOE. The timing of each referendum is at the discretion of the Board. Vocational-Technical Districts are not subject to the referendum process. Instead, the Legislature approves these Districts' tax rates.³

The District must provide adequate public notice of the referendum that includes the purpose and amount of the proposed bond issuance, as well as the estimated annual amount of tax increase upon approval.⁴ The estimated increase, however, is based on certain assumptions that are subject to change, such as the anticipated interest rate on new bonds.⁵ Therefore, taxpayers are voting on the approval of the construction project and cannot rely on the advertised referendum rate as the effective tax rate.

The District may ask their taxpayers to approve a local share in excess of the school construction formula to finance additional options. For example, if a construction project included expanding a particular school building and the District wished to continue the same flooring throughout the entire building, taxpayers may be asked to fund the costs in excess of the State formula. This particular request must be clearly labeled on the referendum voting ballot using the language set forth in 14 Del C. §2004.

¹ DOE's School Construction Technical Assistance Manual, Section 1.10, *Summary of Steps in the Major Capital Improvement Process*

² 14 Del. C. §2122

³ 14 Del. C. c. 26

⁴ 14 Del. C. §1074 (b)

⁵ Other rates that are not subject to voter approval (e.g., tuition, minor capital improvements) may be increased by the District to meet annual demands, thus resulting in the effective tax rate for the District.

The DOE presents their budget of all the State's Districts' construction projects to the Office of Management and Budget for approval and inclusion in the Governor's Recommended Budget.⁶ The Governor's Recommended Budget is then subject to final approval by the Bond Bill Committee and the Legislature via the Bond and Capital Improvements Act (also referred to as the Bond Bill). If a District fails to obtain a successful referendum before June 30, their project is removed from the Governor's Recommended Budget and not included in that year's Bond Bill.

The District's Board then has the "power to employ engineers, architects and such other employees as it deems essential..." for their construction project per 29 Del. C. §7521. All final plans and specifications, including costs of construction under any school construction bond authorization act, are approved by the DOE.⁷

Depending on various factors (e.g., the total cost of the project, other projects within the State), the District will receive funding for their construction project over the course of several fiscal years. For each State bond sale, the District receives an aggregate allocation of funds and must pay back a portion of those funds with local tax receipts. The local share for each District in the State can vary between 20% and 40%⁸, depending on an assessment of the District's ability to meet their obligations.⁹

The District coordinates with the Office of the State Treasurer to pay the local share of their outstanding principal and interest payments in accordance with 14 Del. C. §2108. Annually, the Office of Auditor of Accounts audits the Districts' local tax collections and debt service management in a separate engagement. Further, this engagement examines Bond Bill construction project expenditures.

In the event the construction project comes in under budget, the District may request permission from the State legislature to redirect the State-funded portion of the excess budget amount to fund another project. The subsequent epilogue language in the Bond Bill dictates if the District must put forth local tax receipts and what sources of funding the District may use, such as Minor Capital Improvement funds. Since this is a result of Delaware law, the change does not require a referendum.

There are no legal or statutory provisions that would prohibit a District from utilizing excess funds for early repayment of their debt.

Maintenance of Records

The District should maintain all appropriate documentation related to their construction projects and related debt, including documents related to the referendum process, for audit purposes.

⁶ Same as footnote 1

⁷ 29 Del. C. §7518

⁸ 29 Del. C. §7503 (b)

⁹ An Equalization Committee, as defined by 14 Del. C. §1707 (i), is comprised of 10 to 15 members appointed by the Secretary of the DOE. The equalization formula (detailed in 14 Del. C. §1707) incorporates an annual survey conducted by the University of Delaware and is annually reviewed and approved by the Equalization Committee.

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Abbreviations:

OAOA	Office of Auditor of Accounts
FSF	First State Financials
BAM	<i>State of Delaware Budget and Accounting Policy Manual</i>
SCM	<i>State of Delaware Department of Education School Construction Technical Assistance Manual</i>

The mission of the Delaware Office of Auditor of Accounts

The Delaware State Auditor serves Delawareans by ensuring accountability in the use of taxpayer dollars to identify fraud, waste and abuse through independent assessments, including the use of various audits, special reports and investigations of financial operations, performance management and statutory compliance of state government and to evaluate economy, efficiency and effectiveness.

For further information on this release please contact:

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State of Delaware
Office of Auditor of Accounts
Kathleen K. McGuinness, RPh, CFE
State Auditor

Independent Accountants' Report

Dr. Kevin Fitzgerald
Superintendent
Caesar Rodney School District
7 Front Street
Wyoming, Delaware 19934

The Honorable Susan S. Bunting, Ed.D.
Secretary, Department of Education
Townsend Building, Suite 2
401 Federal Street
Dover, Delaware 19901

We have examined the accompanying State of Delaware Caesar Rodney School District (the District) *Schedule of Construction Projects* for the year ended June 30, 2019 to determine whether it is in accordance with the criteria set forth in the *Delaware Code*, the *State of Delaware Department of Education School Construction Technical Assistance Manual* (SCM), and the *State of Delaware Budget and Accounting Policy Manual* (BAM). The District's management is responsible for the presentation of the *Schedule of Construction Projects* in accordance with the criteria above. Our responsibility is to express an opinion on the *Schedule of Construction Projects* based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the *Schedule of Construction Projects* is in accordance with the criteria listed above, in all material respects. An examination involves performing procedures to obtain evidence about the *Schedule of Construction Projects*. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the *Schedule of Construction Projects*, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the *Schedule of Construction Projects* referred to above presents fairly, in all material respects, the construction projects for the District for the year ended June 30, 2019, based on the criteria set forth in the *Delaware Code*, the SCM, and the BAM.

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The amounts reported in the Expended in Prior Years column of the *Schedule of Construction Projects* contain expenditures incurred prior to July 1, 2017 that were examined by other auditors. The fiscal year ended June 30, 2017 report dated November 14, 2017, expressed an unmodified opinion on the *Schedule of Construction Projects*. As a result, we did not examine the amounts reported in the Expended in Prior Years column of the *Schedule of Construction Projects* for the year ended June 30, 2019 and, therefore, express no opinion on it.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that could have a material effect on the *Schedule of Construction Projects*; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the *Schedule of Construction Projects* is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control applicable to preparing the *Schedule of Construction Projects* or on compliance and other matters; accordingly, we express no such opinion. We consider the deficiencies described in the accompanying *Schedule of Current Year Findings* as Finding 2019-1 and 2019-2 to be significant deficiencies. Our examination disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, described in the accompanying *Schedule of Current Year Findings* as Finding 2019-3.

The District's response to the findings identified in our examination is described in the accompanying *Schedule of Current Year Findings*. We did not audit the District's response, and accordingly, we express no opinion on it.

We noted certain matters that we reported to the management of the district in a separate letter dated October 2, 2020.

This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, and Office of Management and Budget. Under 29 Del. C., §10002(l), this report is public record and its distribution is not limited.



Kathleen K. McGuinness, RPh, CFE
State Auditor

Dover, Delaware
October 2, 2020

*Schedule of Construction Projects
Fiscal Year Ended June 30, 2019*

Project Name	FY	APPR	Source of Funding (State/Local)	Original Funding Amount	Increases (Decreases) in Funding	Total Funding to Date	Expended in Prior Years	Expended in Current Year	Total Expended to Date	Balance as of 6/30/19
CR Ren John S Charlton	2016	50461	100/0	\$ 4,766,900	\$ -	\$ 4,766,900	\$ 2,730,044	\$ 71,602	\$ 2,801,646	\$ 1,965,254
CR, Adds Rens to JR McIlvaine	2017	50464	79/21	3,162,600	(1,356,223)	1,806,377	1,801,073	-	1,801,073	5,304
Caesar Rodney, Renovat (Frear)	2018	50465	79/21	57,600	-	57,600	-	230	230	57,370
Caesar Rodney, Renovat (Frear)	2019	50465	79/21	695,400	-	695,400	-	-	-	695,400
CR Adds Rens to CRHS	2017	50466	79/21	5,669,000	-	5,669,000	3,638,257	1,540,309	5,178,566	490,434
CR Adds Rens to CRHS	2018	50466	79/21	18,106,100	(4,800,000)	13,306,100	413,910	9,910,766	10,324,676	2,981,424
CR Adds Rens to CRHS	2019	50466	79/21	16,134,600	4,800,000	20,934,600	-	2,474,154	2,474,154	18,460,446
CR Ren Fred Fifer III	2017	50468	79/21	533,700	950,000	1,483,700	1,333,554	128,720	1,462,274	21,426
CR Ren Fred Fifer III	2018	50468	79/21	3,224,000	600,000	3,824,000	-	2,601,171	2,601,171	1,222,829
CR Ren Fred Fifer III	2019	50468	79/21	3,220,000	(2,366,888)	853,112	-	-	-	853,112
Caesar Rodney Renovat (Simpson)	2018	50469	79/21	62,200	-	62,200	-	249	249	61,951
Caesar Rodney Renovat (Simpson)	2019	50469	79/21	750,300	-	750,300	-	-	-	750,300
CR Ren F Neil Postlethwait	2017	50471	79/21	564,100	340,000	904,100	720,469	150,904	871,373	32,727
CR Ren F Neil Postlethwait	2018	50471	79/21	3,428,700	1,200,000	4,628,700	14,503	2,921,581	2,936,084	1,692,616
CR Ren F Neil Postlethwait	2019	50471	79/21	3,382,400	(2,366,888)	1,015,512	-	-	-	1,015,512
Caesar Rodney, Renovat (Brown)	2018	50472	79/21	54,900	-	54,900	-	220	220	54,680
Caesar Rodney, Renovat (Brown)	2019	50472	79/21	662,300	-	662,300	-	-	-	662,300
CR Ren Star Hill ES	2017	50473	79/21	181,300	-	181,300	152,517	28,783	181,300	-
CR Ren Star Hill ES	2018	50473	79/21	2,189,100	-	2,189,100	181,225	1,680,187	1,861,412	327,688
CR Ren Nellie Stokes S	2017	50475	79/21	258,700	-	258,700	208,966	49,734	258,700	-
CR Ren Nellie Stokes S	2018	50475	79/21	3,122,700	3,000,000	6,122,700	171,010	4,017,444	4,188,454	1,934,246
CR Construct 600 Students	2017	50477	79/21	1,639,300	-	1,639,300	888,198	506,419	1,394,617	244,683
CR Construct 600 Students	2018	50477	79/21	18,793,700	-	18,793,700	-	21,723	21,723	18,771,977
CR Construct 600 Students	2019	50477	79/21	1,516,500	-	1,516,500	-	-	-	1,516,500
Construction Projects Total				\$92,176,100	\$ 1	\$92,176,101	\$12,253,726	\$26,104,196	\$38,357,922	\$53,818,179

**Schedule of Current Year Findings
June 30, 2019**

Finding 2019-1

Criteria

Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission, defines control activities as “policies and procedures that help ensure management directives are carried out.” Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents. Management review controls are defined as activities of a person different than the preparer analyzing and performing oversight of activities performed and is an integral part of any internal control structure.

The management review for the *Schedule of Construction Projects* is required by *Caesar Rodney School District Internal Controls*, dated July 2019.

Condition

We noted that the *Schedule of Construction Projects* prepared by the District did not properly present information, as detailed below:

- The *Schedule of Construction Projects* erroneously omitted \$1,801,073 in prior year expenditures for appropriation 50464 (CR, Adds Rens to JR McIlvaine).

This finding on the *Schedule of Construction Projects* is a recurrence of a similar financial reporting error denoted in the Fiscal Year 2018 audit report (Finding 2018-1).

Note: The *Schedule of Construction Projects* included on page 3 of this report reflects the corrected Expended in Prior Years amount for this project.

Cause

The District did not provide proper oversight regarding the review of amounts included in the *Schedule of Construction Projects*.

Effect

The management review control was not effective to ensure that the *Schedule of Construction Projects* was completely and accurately stated.

Recommendation

We recommend that the District develop and implement a management review process to ensure accurate representation of the financial data within the *Schedule of Construction Projects*.

District Response

The District agrees the schedule submitted inadvertently omitted the prior year expenditures. The District will continue to review the schedule prior to submission to ensure the accuracy of the data.

Finding 2019-2

Criteria

Caesar Rodney School District Internal Controls, dated July 2019, states, “Supervisor of Facilities Management monitors all capital projects, signs the purchase orders / payment vouchers / change orders and attends the progress meetings with the architect, construction manager (or general contractor) and contractors.”

Condition

During Fiscal Year 2019, the District processed 52 construction purchase orders totaling \$40,168,892. In our expenditures sample of 13 transactions totaling \$12,943,191, one purchase order totaling \$3,676,287 lacked evidence of the Supervisor of Facilities Management review and approval.

Cause

The District’s Facilities Management did not provide proper oversight regarding the review and approval of all purchase orders.

Effect

The potential effect of processing purchase orders without the Facilities Manager’s review and approval risks wasteful expense to State of Delaware resources should the purchase order not meet the needs of the district.

Recommendation

We recommend that the District adopt a management review process to ensure the Facilities Manager’s review and approval is documented in accordance with district policy prior to endorsement.

District Response

The District understands the importance of the management review process and will continue to ensure transactions processed are in accordance with the District’s internal control procedures.

Finding 2019-3

Criteria

The *State of Delaware Budget and Accounting Manual* (BAM), Chapter 7, Section 7.5.2, states, "If a PO is supported by a contract, the contract number must be listed on the PO or Direct Claim voucher."

Condition

During Fiscal Year 2019, the District processed 52 construction purchase orders totaling \$40,168,892. In our expenditures sample of 13 transactions totaling \$12,943,191, there were four purchase orders totaling \$11,503,473 without a contract number listed on the purchase order.

Cause

District management failed to comply with the requirements of the BAM.

Effect

The District is not in compliance with the requirements of the BAM, as noted above. The omission of the contract numbers on the purchase orders risks misfiling of documents and holds the potential for wasted time researching documents that are not properly cross-referenced.

Recommendation

We recommend that the District develop and implement a management review process to ensure compliance with the BAM requirement prior to endorsement of the transactions.

District Response

The District has since developed an internal contract numbering system since not all vendors provide a contract number. The District will include the contract number on Purchase Orders and Direct Claim Vouchers going forward.

